

STATE OF SOUTH CAROLINA

(Caption of Case)

IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and charges
for the provision of water and
sewer service.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2006 - 92 - W/S

(Please type or print)

Submitted by: John M.S. Hoefer

SC Bar Number: _____

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DOCKETING INFORMATION (Check all that apply)

- ☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input checked="" type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certificatio
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input checked="" type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

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November 25, 2008

VIA HAND DELIVERY

The Honorable Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29211

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PUBLIC SERVICE
COMMISSION

RE: Application of Carolina Water Service, Inc., Docket No. 2006-92-WS

Dear Mr. Terreni:

I am writing to you on behalf of Carolina Water Service, Inc. ("CWS") to respond to the October 9, 2008, letter from Mr. Don Long to Chairman Fleming in connection with the above-referenced matter. Therein, Mr. Long indicates that he sent a copy of his letter to each of the Commissioners. If the Commission determines that it will consider the content of Mr. Long's letter, I would ask that you provide a copy of this letter to each of the Commissioners as well.¹

¹ CWS submits that Mr. Long's letter is not properly before the Commission and should therefore not be considered. Consideration of Mr. Long's letter would be improper on the same grounds stated in the Company's objection to Mr. Long's testimony at the hearing held in this matter on October 1, 2008 – i.e., it would be in contravention of the express terms of the Supreme Court's September 3, 2008, order remanding this matter to the Commission. Furthermore, even if consideration of Mr. Long's letter did not contravene the Supreme Court's order, it does not satisfy the requirements of Commission Rule 103-845 and contains hearsay statements regarding news articles in violation of Commission Rule 103-846, SCRE Rule 802. Also, by submitting information to the Commission in this manner, Mr. Long avoids the cross-examination which CWS would be entitled to conduct of him if, indeed, the information is considered evidence by the Commission. See Rule 611, SCRE.

Assuming that Mr. Long's letter is properly before the Commission, which is disputed, it contains numerous factual and analytical errors which should give the Commission pause in its evaluation of same. For example, Mr. Long states that CWS has 22,000 customers in South Carolina. In fact, CWS witness Lubertozi has testified that the Company has some 20,500 customers. Similarly, Mr. Long incorrectly asserts that CWS has 88 "operating entities" in South Carolina. In fact, CWS has no operating entities in South Carolina but, as Mr. Lubertozi testified, operates some 88 water and sewer systems which are separately permitted by the Department of Health and Environmental Control. Further, Mr. Lubertozi did not testify that "subsidization exists to some degree in all utility operations" as Mr. Long posits. To the contrary, he testified that some subsidization exists in all uniform rate structures such as that approved for the Company by the Commission.

As to this latter point, I would note that Mr. Long continues to assert that customers in the Company's Riverhills Service Territory are unjustifiably subsidizing all other CWS customers based upon his contention that the return on rate base associated with the Company's York County systems is "as much as 58%." As Mr. Lubertozi has stated in his conditional rebuttal testimony that has been filed contemporaneously herewith, many of the key data inputs which Mr. Long used to arrive at this figure are based on assumptions or estimates or are demonstrably wrong. Moreover, unless a complete analysis of the revenues, expenses and original cost of plant for each of the Company's service territories is performed, it is not possible to ascertain the rate of return on rate base for a given service territory. Mr. Long's letter implicitly recognizes that such a comprehensive analysis is required when he notes that the Commission previously requested "financial data" from CWS "for each operating entity [sic]." The Company has not performed such an analysis and neither has Mr. Long.

In his letter, Mr. Long also mischaracterizes the nature of the data regarding the Riverhills Service Territory provided by the Company to ORS in December of 2006. As he did in his testimony, Mr. Long omits the fact that CWS informed ORS in October of 2006 that the information provided would in part be based upon estimates and allocations. Further, Mr. Long's letter appears to suggest that CWS provided ORS "financial data" for "each operating entity." In fact, and as Mr. Lubertozi testifies, the information provided by CWS to ORS related only to the Riverhills Service Territory and, again, was based upon estimates and allocations. If this is not Mr. Long's suggestion, then he failed to understand the basic point underlying CWS's position: in order to determine the level of subsidy for any one of the Company's service territories, it would be necessary to perform an analysis of all of the service territories, not just one, and that it would cost approximately \$400,000 to do so.

The contention by Mr. Long that "a new, highly integrated information system and database" installed by Utilities, Inc. will allow CWS to "provide the requested information on individual CWS operations without major additional expense" is incorrect for several reasons. First, the new computer system can only provide beneficial data going forward. The new computer system did not go back in time to recreate or allocate certain balance sheet and income

state items to operating systems and service territories. As Mr. Lubertozi explained in his testimony in this matter, only with original cost basis data for plant in all service territories or systems can the rate of return on rate base for a given service territory or system be determined. Also, and as CWS has asserted throughout this case, it has not collected and recorded data on a service territory or system basis, but on a statewide basis. Therefore, Mr. Long's assertion that the existence of the new computer system in and of itself avoids the expense associated with determining the rate of return on rate base for a given service territory or system is, again, incorrect. The Company continues to estimate that this undertaking would cost in excess of \$400,000.

Finally, Mr. Long asserts that because the rate of return on rate base for the Riverhills Service Territory that the Company estimated for ORS in December of 2006 (7.98%) exceeds the rate of return on rate base that is produced by the proposed settlement (7.64 %), this somehow demonstrates that "unwarranted subsidization of other CWS systems" by the Company's York County customers. This assertion is incorrect for several reasons. First, even assuming that such a comparison were relevant (which the Company disputes), it suffers from the same defect as much of Mr. Long's analysis, i.e., it seeks to rely on an estimated rate of return on rate base for the Riverhills Service Territory determined in the absence of a necessary calculation of the rate of return on rate base being experienced in each other CWS service territory. Further, even if it is assumed that the return on rate base for the Riverhills Service Territory was 7.98% as of December 31, 2005, the rate of return on rate base produced by the settlement would not be the proper comparison point as the rate of return on rate base produced by the proposed settlement was determined for a period ending a full quarter prior to that date. Lastly, Mr. Long's assertion that this differential demonstrates "unwarranted subsidization" is utterly without factual support, which is unsurprising since he has performed no analysis of the rates of return on rate base associated with the other CWS service territories and systems over the life of the plants associated with those territories and systems. Customers of the Riverhills Service Territory have clearly been subsidized by other CWS customers in the past – particularly during those periods when they were charged rates lower than those of other, similarly situated customers.² Accordingly, a more fulsome analysis of the extent and level of any subsidization, supported by facts, would be required to establish Mr. Long's claim in this regard.

²The Company has, without objection, previously requested in this docket that the Commission take notice of certain of its own records which establish these facts. Also, Mr. Long's assertion in this regard overlooks the fact that the 7.98% rate of return on rate base estimated for the Riverhills Service Territory is less than that which the Company was authorized to earn under the rate schedules in effect during the period in question. See Order No. 2001-887, Docket No. 2000-207-WS and Order Nos. 2005-328 and 2007-135, Docket No. 2004-357-WS. Based upon Mr. Long's "logic", it would be the customers in the Company's Riverhills Service Territory that were being subsidized during this period and not the other way around.

The Honorable Charles L.A. Terreni

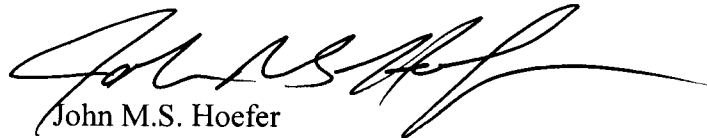
November 25, 2008

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If you have any questions, or need additional information, please do not hesitate to contact me. With best regards, I am

Sincerely,

WILLOUGHBY & HOEFER, P.A.



John M.S. Hoefer

JMSH/

cc: Jeffrey Nelson, Esquire
Nanette S. Edwards, Esquire